

MEMO

DATE: October 2, 2003

To: Administration Committee and Regional Council

FROM: Ed Paul, Internal Auditor
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RE: Audit and Best Practices Committee Charter

EXECUTIVE DIRECTOR'S APPROVAL:

Mark Pomeroy

RECOMMENDED ACTION:

Adopt the Audit and Best Practices Committee Charter

SUMMARY: Attached is the charter for the Audit and Best Practices Committee. It was developed by the Audit and Best Practices Committee and staff at the September 2, 2003 meeting. It is presented to the Regional Council and Administration Committee for adoption.

BACKGROUND:

This committee will assist the Regional Council in fulfilling its oversight responsibilities for the financial reporting, internal controls, the annual external audit, and SCAG's compliance with all applicable laws and regulations. In recent years, events have evolved to place increasing emphasis on audit committee's roles and to insure their independence. The proposed charter was developed from a draft provided by the Institute of Internal Auditors and modified by committee members and staff to conform to a government agency and some unique requirements for SCAG.

Essentially the charter does the following:

1. Establishes the committee as one of the Regional Council but reporting to the Administration Committee. This will provide the committee the ability to retain outside accountants or counsels with the approval of the Regional Council.
2. Appoint and review the work of the independent external auditors, including meeting alone with them on an annual basis to discuss any of their concerns.
3. Review the internal auditor's annual workplan, including the nature and scope of the audits scheduled for the fiscal year.
4. Receive and review draft internal audit reports directly from the internal auditor, including any findings and recommendations, at the same time the draft is presented to management.
5. Review the findings and examinations by any regulatory agencies.
6. Provide an open avenue of communication between internal audit, external auditors and the Regional Council.
7. Review the Executive Director's travel authorizations and reimbursements quarterly to insure compliance with Association travel policies.

FISCAL IMPACT: None #90444v1



AUDIT AND BEST PRACTICES COMMITTEE CHARTER

Purpose of Committee

To assist the Regional Council in fulfilling its oversight responsibilities for the financial reporting, internal controls, the annual external audit, and SCAG's compliance with all applicable laws and regulations.

Authority

The Audit and Best Practices Committee is a committee of the Regional Council reporting to the Administration Committee and has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all external auditing services for the Administration Committee.
- Retain independent counsel, accountants, or others to advise the Administration Committee or assist in the conduct of an investigation.
- Seek any information it requires from employees—all of whom are directed to cooperate with the Committee's requests—or external auditors, or outside counsel, as necessary.
- Meet with the Association's officers, external auditors, or outside counsel, as necessary.

Composition

The Audit and Best Practices Committee will consist of at least three and no more than six members of the Regional Council Administration Committee. The Regional Council President will appoint Committee members and the Committee chair.

Meetings

The Committee will meet at least six times a year, with authority to convene meetings, as circumstances require. All Committee members are expected to attend each meeting. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

Responsibilities

The Committee will carry out the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and external auditors the results of the annual external audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing Standards.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.

Internal Control

- Consider the effectiveness of the Association's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

- Review with management and the internal auditor the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Review and approve the internal auditor annual workplan, including the nature and scope of the audits scheduled for the fiscal year.
- Receive and review draft internal audit reports, including findings and recommendations, directly from the internal auditor at the same time they are provided to SCAG management. Provide management an opportunity to comment on the report and follow-up on any corrective actions required.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal auditor.
- On an as needed basis, meet separately with the internal auditor to discuss any matters that the Committee or internal audit believes should be discussed privately.

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination or audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors and relationships between the auditors and the Association, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) or any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and the Chief Counsel regarding compliance matters.

Reporting Responsibilities

- Regularly report to the Administration Committee about Committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the board of directors.
- Review any other reports the Association issues that relate to Committee responsibilities.

Other Responsibilities

- Perform other activities related to this charter as requested by the Regional Council and Administration Committee.
- Institute and oversee special investigations as needed.
- Review the Executive Director's travel authorizations and reimbursements quarterly.
- Review and assess the adequacy of the Committee charter annually, requesting Regional Council approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.

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